

Docket No. 7525

Order entered: 6/18/2009

On June 16, 2009, the Vermont Department of Public Service (the "DPS") informed the Board that it had reviewed the Notice and supporting documentation. Based on its review, the Department recommended that the Board find VPPSA's request for increasing its short-term indebtedness to be consistent with the general good of the state without hearing or further investigation.

1. VPPSA is a company as defined by 30 V.S.A. § 201 and as such is subject to the Board's jurisdiction pursuant to 30 V.S.A. §§ 108(a) and 5040. Petition at 1.

2. VPPSA provides power supply and other related services to its thirteen municipal electric department members¹ and to other affiliates. Petition at 1.

3. VPPSA requires a line of credit to support cash flow for daily operating expenditures and power purchase transactions. Due to the timing of these expenditures in relation to when revenues are received from VPPSA's members, utilization of the line of credit is occasionally necessary. Petition at 1.

4. VPPSA currently maintains a credit line with KeyBank in the maximum amount of \$3 million with a term of 364 days. KeyBank has also made available to the Company a standby guidance letter of credit in the amount of \$3 million and an equipment guidance line of credit in the amount of \$1 million, both with a term of 364 days. VPPSA has never needed to access either the guidance letter of credit or the equipment guidance line; however, the ability to deliver a letter of credit may be necessary for some of VPPSA's power supply transactions. Rather than maintain three separate credit facilities, VPPSA proposes to renew and consolidate its existing credit line with its guidance letter of credit into a new Facility not to exceed \$6 million. Since the equipment guidance line of credit has never been used, VPPSA will not include it as part of the proposed renewal. Currier pf. at 2.

5. The Facility will be for a term of 364 days and will provide two interest rate options based on either the London Interbank Offered Rate ("LIBOR") or the Prime Rate ("Prime") each time VPPSA requests a cash advance or a letter of credit. The interest rate on Prime advances shall be equal to Prime plus .52% multiplied by 62.5% for a bank-qualified facility and Prime plus 1.64% multiplied by 62.5% for a non-bank-qualified facility. The interest rate on LIBOR advances shall be equal to overnight LIBOR or 1.5%, whichever is greater, plus 1.77% multiplied by 62.5% for a bank-qualified facility and overnight LIBOR or 1.5%, whichever is

1. Barton Village, Inc. Electric Department, Village of Enosburg Falls Water & Light Department, Town of Hardwick Electric Department, Village of Hyde Park Electric Department, Village of Jacksonville Electric Company, Village of Johnson Water & Light Department, Village of Ludlow Electric Light Department, Village of Lyndonville Electric Department, Village of Morrisville Water & Light Department, Village of Northfield Electric Department, Inc., Village of Orleans Electric Department, Town of Readsboro Electric Light Department, and Swanton Village, Inc. Electric Department.

greater, plus 2.89% multiplied by 62.5% for a non-bank-qualified facility.² VPPSA expects the Facility will be bank-qualified; however, that has not been determined by VPPSA's bond counsel as of the date of the Notice. Currier pf. At 3.

6. As of April 30, 2009, VPPSA's balance sheet reports total short-term indebtedness in the amount of \$15,929,154 consisting of: (1) \$4,171,855 related to the purchase of Vermont Transco LLC ("Transco") membership units on behalf of Vermont Electric Cooperative, Inc. ("VEC"); (2) \$2,016,016 related to NOx upgrades at the McNeil Generating Facility ("McNeil"); and (3) \$9,741,243 related to the construction of Project #10, the Swanton Peaking Generation Facility. VPPSA also reports total assets in the amount of \$49.7 million. This results in a ratio of total short-term indebtedness to total assets of approximately 32%, exceeding the 20% threshold established under 30 V.S.A. § 108(a)(1), thus triggering Board review. There is currently no outstanding balance due on the existing line of credit. Currier pf. at 3-4; exh. VPPSA-Currier-2.

7. VPPSA anticipates that the short-term indebtedness related to the purchase of Transco membership units on behalf of VEC will be converted to long-term debt in June 2009, and that the indebtedness related to Project #10 will be fully paid with bond proceeds to be issued in July 2009. The only short-term debt remaining after the expected long-term financings will be the debt associated with the NOx upgrades at McNeil. As a result, the McNeil debt, coupled with the potential utilization of the entire line of credit facility with KeyBank, would result in a short-term debt to total assets ratio of approximately 16% . Currier pf. at 4.

III. DISCUSSION

Based on the foregoing, the Board concludes that VPPSA's Notice to renew and increase its existing revolving line of credit with KeyBank from \$3 million to \$6 million will be consistent with the general good of the state. The increased credit availability provided by the Facility will allow VPPSA to consolidate its short-term facilities and continue to comply with its

2. "Bank-qualified" refers to debt instruments issued by state and local governments, and held by banks, in which banks may deduct the interest expense they incur by carrying those instruments if the debt is a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986. Debt instruments qualifying for this treatment are commonly referred to as "bank-qualified" obligations and allow the bank to provide a lower tax-exempt interest rate to an issuer such as VPPSA, provided that the issuer has not issued more than \$30 million in debt in the calendar year. VPPSA E-mail dated 6/17/09 at 1.

power purchase collateral requirements and access the power markets, thus maintaining the Company's financial stability. Therefore, we find that no further inquiry is warranted into VPPSA's proposal to increase its short-term indebtedness as described above, and that, pursuant to 30 V.S.A. § 108(a)(1), VPPSA may proceed with the proposed financing.

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The terms and conditions proposed by the Vermont Public Power Supply Authority ("VPPSA") to renew and increase its existing revolving credit facility of \$3 million to a \$6 million revolving credit facility with KeyBank as lender, are consistent with the general good of the state, and, pursuant to 30 V.S.A. § 108(a)(1), VPPSA may proceed with the financing.
2. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that VPPSA may implement. Nothing in this approval shall preclude the Vermont Department of Public Service ("Department") or any other party, or the Public Service Board ("Board"), from reviewing and/or challenging those expenditures and/or VPPSA's resulting capital structure in any future proceeding.
3. Upon request, VPPSA shall provide the Board and the Department with a complete set of final executed documents when they are available.
4. VPPSA shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.

Dated at Montpelier, Vermont, this 18th day of June, 2009.

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| <u>s/James Volz</u> |) | |
| |) | PUBLIC SERVICE |
| |) | |
| <u>s/David C. Coen</u> |) | BOARD |
| |) | |
| |) | OF VERMONT |
| <u>s/John D. Burke</u> |) | |

OFFICE OF THE CLERK

FILED: June 18, 2009

ATTEST: s/Susan M. Hudson
CLERK OF THE BOARD

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.